

Message Text

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46

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 EA-06 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 DODE-00 PA-01 PRS-01

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R 041117Z AUG 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 2824

INFO AMEMBASSY BEIRUT

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E.O. 11652: N/A

TAGS: EFIN, IR

SUBJECT: MORE COMMENTS ON IRAN'S BALANCE OF PAYMENTS

OUTLOOK AND RIAL EXCHANGE RATE

REF: (A) TEHRAN 7231; (B) TEHRAN 7037; (C) TEHRAN A-127

1. SUMMARY: CENTRAL BANK OFFICIAL PREDICTS A SMALL BALANCE OF PAYMENTS DEFICIT DURING THE CURRENT IRANIAN YEAR AND A SMALL SURPLUS DURING THE FOLLOWING YEAR WHICH SHOULD APPROXIMATELY EQUAL ONE ANOTHER. IRAN IS NOT EXPECTED TO BE IN A NET CAPITAL IMPORTING POSITION THIS YEAR OR NEXT. WITH THE DOLLAR CONTINUING TO STRENGTHEN ON WORLD MARKETS, ANOTHER SMALL DEVALUATION OF THE RIAL IN RELATION TO THE DOLLAR SEEMS LIKELY, BUT THE RIAL IS GAINING FROM CHEAPER IMPORTS FROM OTHER OECD COUNTRIES WHOSE CURRENCIES HAVE DECLINED BOTH IN RELATION TO THE RIAL AND LIMITED OFFICIAL USE

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DOLLAR. END SUMMARY

2. DURING FAREWELL CALL, EMBOFF ASKED SHAHPUR M. SHIRAZI, DIRECTOR GENERAL OF CENTRAL BANK OF IRAN (CBI) INTERNATIONAL AFFAIRS DEPARTMENT, FOR HIS LATEST FORECASTS FOR IRANIAN BALANCE OF PAYMENTS. SHIRAZI SAID THE VALUE OF THE COUNTRY'S IMPORTS THIS YEAR SO FAR ARE IS INCREASING AT A STEADY RATE IN THE 50-60 PERCENT RANGE, IN SPITE OF PORT CONGESTION PROBLEMS. THIS WOULD MEAN A \$15-16 BILLION IMPORT BILL DURING THE CURRENT IRANIAN YEAR (ENDING MARCH 20, 1976). EARNINGS FROM OIL EXPORTS COULD DROP AS LOW AS \$18-\$19 BILLION LEVEL. IF THE IMPORT LEVEL CONTINUES TO HOLD UP AND OIL EXPORT EARNINGS DO NOT RISE APPRECIABLY DURING THE CURRENT YEAR, THEN THE IRANIAN BALANCE OF PAYMENTS COULD SHOW A "SMALL" DEFICIT. (COMMENT: A \$1-\$2 BILLION RISE IN EXPENDITURES ON IMPORTS AND A SIMILAR REDUCTION IN RECEIPTS FROM OIL EXPORTS WOULD ERASE THE ESTIMATED \$3 BILLION BALANCE OF PAYMENTS SURPLUS PREDICTED IN REFERENCES B. AND C. SHIRAZI MAY BE CORRECT ON THE IMPORT LEVEL, BUT WE THINK HE IS TOO PESSIMISTIC ON OIL EXPORT EARNINGS, AND A SMALL BALANCE OF PAYMENTS SURPLUS STILL SEEMS MORE LIKELY THAN NOT.)

3. FOR IRANIAN YEAR 1355 (MARCH 21, 1976-MARCH 20, 1977), SHIRAZI SAID HE PREDICTS A SMALL SURPLUS. HE THINKS THE RATE OF INCREASE IN IRANIAN EXPORTS PROBABLY WILL "LEVEL OFF". AT THE SAME TIME, WORLD RECOVERY FROM THE CURRENT RECESSION SHOULD MEAN A SIGNIFICANT INCREASE IN DEMAND FOR OIL IMPORTS. THE PRICE OF OIL ALSO PROBABLY WOULD GO UP SOMEWHAT. HE EXPECTS THE SMALL SURPLUS NEXT YEAR AND THE SMALL BALANCE OF PAYMENTS DEFICIT THIS YEAR TO CANCEL EACH OTHER OUT.

4. SHIRAZI SAID HE DOUBTS THAT IRAN WILL BE IN A NET CAPITAL IMPORT POSITION THIS YEAR OR NEXT. HE MENTIONED THE WELL PUBLICIZED COMMITMENTS IRAN ALREADY HAS MADE TO OTHER COUNTRIES. AT THE SAME TIME, THE DEVELOPMENT BANKS AND SOME PUBLIC SECTOR COMPANIES WILL BE GRADUALLY ENTERING WORLD CAPITAL MARKETS. SHIRAZI CONFIRMED IN GENERAL TERMS THE PLAN TO HAVE LEHMAN BROTHERS/GOLDMAN SACHS ARRANGE TO UNDERWRITE IRANIAN ISSUES ON THE NEW YORK CAPITAL MARKET (MEMCON OF JULY 31 BEING POUCHED TO WASHINGTON FOR LIMITED OFFICIAL USE

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INGTON END-USERS). THERE ARE NO PLANS FOR THE GOI TO BORROW DIRECTLY ON INTERNATIONAL CAPITAL MARKETS, BUT THE DEVELOPMENT BANKS AND SOME PUBLIC SECTOR COMPANIES EVENTUALLY WILL BE BORROWING LARGE AMOUNTS. HE MENTIONED A LIKELY \$600 MILLION BOND ISSUE BY THE NATIONAL PETROCHEMICALS COMPANY FOR VARIOUS PROJECTS.

5. SHIRAZI PREDICTED A CONTINUING STRENGTHENING OF THE

DOLLAR ON WORLD CURRENCY MARKETS THIS WEEK AND ANOTHER
SMALL DEVALUATION OF THE RIAL VIS-A-VIS THE DOLLAR. (IN
LATE AFTERNOON HE CALLED EMBOFF TO REPORT NEW RIAL/DOLLAR
RATE WOULD BE ANNOUNCED ON AUGUST 4. SEE SEPTTEL.) HE POINTED
OUT THAT THE STRENGTHENING OF THE DOLLAR HAS BEEN AT THE
EXPENSE OF ALL OTHER MAJOR OECD CURRENCIES AGAINST WHICH
THE RIAL HAS GAINED MORE GROUND THAN IT HAS LOST IN RELAT-
ION TO THE DOLLAR. THUS, RECENT CURRENCY FLUCTUATIONS
HAVE WORKED OUT TO IRAN'S BENEFIT, BECAUSE ONLY ABOUT 20
PERCENT OF ITS IMPORTS (NON-MILITARY) ARE FROM THE U.S.
THESE ARE SLIGHTLY MORE EXPENSIVE IN TERMS OF RIALS, BUT
THE RAMAINING 80 PERCENT OF IMPORTS ARE CHEAPER GIVING IRAN
A NET GAIN.
HELMS

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